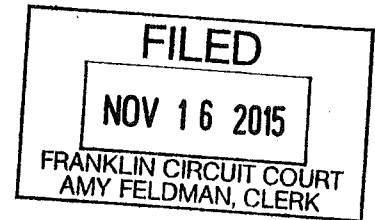


COMMONWEALTH OF KENTUCKY
FRANKLIN CIRCUIT COURT
DIVISION I
CASE NO. 15-CI-1202



**COMMONWEALTH OF KENTUCKY EX REL.
JACK CONWAY, ATTORNEY GENERAL**

PLAINTIFF

V. COMPLAINT

**EDUCATION MANAGEMENT CORPORATION;
ARGOSY UNIVERSITY OF CALIFORNIA LLC;
SOUTH UNIVERSITY, LLC;
BROWN MACKIE EDUCATION II LLC;
THE ART INSTITUTES INTERNATIONAL II LLC;
THE ART INSTITUTE OF PITTSBURGH LLC
STAUTZENBERGER COLLEGE EDUCATION CORPORATION;
AMERICAN EDUCATION CENTERS, INC.**

DEFENDANTS

Comes the Plaintiff, the Commonwealth of Kentucky ex rel. Attorney General Jack Conway, and for his Complaint against Defendants states as follows:

INTRODUCTION

1. Education Management Corporation ("EDMC") is a for-profit educational institution that operates online and on ground schools including Argosy University, Brown Mackie College, The Art Institutes, and South University.
2. As of October 2014, EDMC had approximately 112,430 enrolled students online and at its 110 locations in thirty-two U.S. States and Canada.
3. EDMC and its subsidiaries have engaged in deceptive and misleading student solicitations and recruiting activities touting educational benefits that were available to too few EDMC students.

4. EDMC and its subsidiaries have engaged in unfair, false, misleading and deceptive acts and practices against its students and prospective students, including but not limited to misrepresenting job placement rates and graduation rates for students.

5. The Attorney General brings this action under Kentucky Revised Statutes (KRS) Chapter 367 to seek a court order barring EDMC and its subsidiaries from engaging in unfair, false, misleading and deceptive practices, to obtain restitution for consumers, and to reform EDMC's and its subsidiaries' business practices to comply with KRS 367.110 *et seq.*

PARTIES, JURISDICTION, AND VENUE

6. Plaintiff is the duly elected Attorney General for the Commonwealth of Kentucky and is responsible for the enforcement and administration of Kentucky law, including the consumer protection laws set forth in KRS Chapter 367. Plaintiff is sometimes referred to as "Plaintiff" or "Attorney General."

7. Defendant EDMC is a Pennsylvania corporation with its corporate headquarters at 210 Sixth Avenue, 33rd Floor, Pittsburgh, Pennsylvania, and is one of the largest for-profit higher education companies in the United States.

8. Defendants, Argosy University of California LLC, South University LLC, The Art Institutes International II LLC, Brown Mackie Education II LLC, The Art Institute of Pittsburgh LLC, Stautzenberger College Education Corporation, and American Education Centers, Inc. are all wholly-owned, indirect subsidiaries of EDMC.

9. Brown Mackie Education II LLC is a Delaware limited liability company, with a registered address of 2711 Centerville Road, Suite 400, Wilmington Delaware.

10. Argosy University of California LLC is a California limited liability company, with its principal office at 210 Sixth Ave., 33rd Floor, Pittsburgh, Pennsylvania. Argosy University offers online postsecondary educational programs to consumers.

11. South University LLC is a Georgia limited liability company, with its principal office at 210 Sixth Ave., Pittsburgh, Pennsylvania. Upon information and belief, South University offers online postsecondary educational programs to consumers.

12. The Art Institute of Pittsburgh LLC is a Pennsylvania limited liability company, with its principal office at 210 Sixth Ave., 33rd Floor, Pittsburgh, Pennsylvania. Upon information and belief, The Art Institute of Pittsburgh offers online postsecondary educational programs to consumers.

13. Stautzenberger College Education Corporation and American Education Centers, Inc. are subsidiaries of The Art Institutes International II LLC, a Pennsylvania limited liability company, with its principal office at 210 Sixth Ave., 33rd Floor, Pittsburgh, Pennsylvania.

14. Stautzenberger College Education Corporation is a Delaware corporation, with its principal office at c/o EDMC, 210 Sixth Ave., 33rd Floor, Pittsburgh, Pennsylvania. Upon information and belief, Stautzenberger College Education Corporation operates for-profit postsecondary schools in the Commonwealth of Kentucky as Assumed Name Corporations Brown Mackie College—Hopkinsville and Brown Mackie College—Louisville.

15. American Education Centers, Inc. is a Delaware corporation, with its principal office at c/o EDMC, 210 Sixth Avenue, 33rd Floor, Pittsburgh, Pennsylvania. Upon information and belief, American Education Centers operates a for-profit postsecondary school in the Commonwealth of Kentucky as Assumed Name Corporation Brown Mackie College—Northern Kentucky.

16. Upon information and belief, at all times relevant to this Complaint, Defendants have offered and continue to offer educational services to consumers in the Commonwealth of Kentucky and transacted business within the Commonwealth of Kentucky.

17. KRS 367.190(1), in pertinent part, authorizes the Attorney General to bring this action:

Whenever the Attorney General has reason to believe that any person is using, has used, or is about to use any method, act or practice declared by KRS 367.170 to be unlawful, and that proceedings would be in the public interest, he may immediately move in the name of the Commonwealth in a Circuit Court for a restraining order or temporary or permanent injunction to prohibit the use of such method, act or practice. The action may be brought in the Circuit Court of the county in which such person resides or has his principal place of business or in the Circuit Court of the county in which the method, act or practice declared by KRS 367.170 to be unlawful has been committed or is about to be committed; or with consent of the parties may be brought in the Franklin Circuit Court.

18. Venue is proper in Franklin County pursuant to KRS 367.190(1).

FACTUAL ALLEGATIONS

EDMC and its subsidiaries used high pressure, deceptive and unfair recruiting tactics

19. Upon information and belief, Defendants targeted prospective students for high pressure recruitment, including many students Defendants knew or reasonably should have known would not likely benefit from an education at its educational institutions.

20. Upon information and belief, Defendants high-pressured prospective students to enroll upon their first contact with Defendant's recruiters.

21. Defendants made emotional pitches to recruits to pressure them to enroll.

22. Upon information and belief, Defendants misled prospective students about program costs, emphasizing cost per credit hour and other generalities rather than disclosing total costs to complete a program.

23. Upon information and belief, Defendants falsely claimed students would earn substantially higher incomes through obtaining Defendant's degrees than Defendant knew their graduates actually earned.

EDMC and its subsidiaries made false claims regarding program accreditation

24. Upon information and belief, in connection with the solicitation of prospective students, Defendants inaccurately claimed that certain of their programs were accredited by a programmatic accreditor necessary for a student to obtain licensure in their profession.

25. In connection with the solicitation of prospective students, Defendants inaccurately claimed that they were seeking to have certain programs accredited.

EDMC and its subsidiaries misrepresented job placement data to students and prospective students

26. Upon information and belief, Defendants engaged in deceptive and unfair practices in calculating disclosed job placement rates, including but not limited to:

- a. misrepresenting EDMC graduates who worked only temporarily as having been "employed," based, for example, on a single day of work;
- b. misrepresenting EDMC graduates as having been "placed in field" although the employment in question was at a level below that of the graduates' fields of study, including but not limited to a graduate with an AA in Business Management based on employment as a Customer Service Representative at a retail store and a graduate with an Accounting diploma based on employment as a cashier at a fast food restaurant;
- c. excluding from the total of graduates to be included in the calculation of the job placement rate some graduates who had not obtained employment in the field of study and had continued in the same job they held prior to enrolling in the program.

EDMC and its subsidiaries accepted leads obtained through deceptive means

27. Upon information and belief, Defendants accepted and paid for prospective student referrals from third party lead generators who operated online and who obtained leads through deceptive practices and then recruited students based on those leads.

EDMC and its subsidiaries maintained an unfair refund policy

28. Upon information and belief, Defendants' tuition refund policies unfairly charged students for classes that commenced after they withdrew from Defendants' school. Certain of Defendants' schools, including Brown Mackie Colleges in Kentucky, offer students the ability during a term to take courses consecutively, for example, one course a month for that term, rather than attending all courses concurrently during a term. Because students took courses one at a time, they had the false impression they would not be obligated to pay for a course if they withdrew prior to attending the course. Defendants failed to correct this misimpression and did not clearly inform students that depending upon when a student withdrew, Defendants' policies for tuition obligations could require withdrawing students to pay for courses they had never attended during the term.

29. The deceptive and unfair practices cited in paragraphs 12-27 above led to certain Kentucky students enrolling in and becoming indebted for Defendant's educational courses.

CAUSES OF ACTION

30. Paragraphs 1 through 29 are incorporated herein by reference.

COUNT ONE – UNFAIR, FALSE, MISLEADING AND DECEPTIVE ACTS AND PRACTICES IN SOLICITATIONS AND RECRUITMENT

31. Defendants have engaged in unfair, false, misleading and deceptive acts and practices in conduct of trade or commerce in violation of KRS 367.170 in connection with their solicitations for enrollment in educational courses, as set forth in paragraphs 19-29.

32. The aforementioned practices constitute willful violations of the prohibition against unfair, false, misleading or deceptive acts and practices in violation of KRS 367.170.

COUNT TWO – UNFAIR, FALSE, MISLEADING AND DECEPTIVE ACTS AND PRACTICES WITH RESPECT TO ACCREDITATION

33. Defendants have engaged in unfair, false, misleading and deceptive acts and practices in conduct of trade or commerce in violation of KRS 367.170 in connection with their solicitations for enrollment in educational courses, as set forth in paragraphs 24-25.

34. The aforementioned practices constitute willful violations of the prohibition against unfair, false, misleading or deceptive acts and practices in violation of KRS 367.170.

COUNT THREE—UNFAIR, FALSE, MISLEADING AND DECEPTIVE ACTS AND PRACTICES WITH RESPECT TO JOB PLACEMENT RATES

35. Defendants have engaged in unfair, false, misleading and deceptive practices in conduct of trade or commerce in violation of KRS 367.170 in connection with their solicitations for enrollment as set forth in paragraph 26.

36. The aforementioned practices constitute willful violations of the prohibition against unfair, false, misleading or deceptive acts and practices in violation of KRS 367.170.

COUNT FOUR—UNFAIR, FALSE, MISLEADING AND DECEPTIVE ACTS AND PRACTICES WITH REGARD TO THE TUITION OBLIGATIONS INCURRED BY WITHDRAWING STUDENTS

37. Defendants have engaged in unfair, false, misleading and deceptive acts and practices in conduct of trade or commerce in violation of KRS 367.170 in connection with their tuition obligation policies as set forth in paragraph 28.

38. The aforementioned practices constitute willful violations of the prohibition against unfair, false, misleading or deceptive acts and practices in violation of KRS 367.170.

REQUEST FOR RELIEF

WHEREFORE, PLAINTIFF respectfully requests:

A. That the Court, pursuant to KRS 367.190, issue a permanent injunction enjoining Defendants and (as applicable) each of the Defendants' directors, officers, principals, partners, employees, agents, representatives, subsidiaries, affiliates, successors, assigns, merged or acquired predecessors, parent or controlling entities, and all other persons, corporations, or other entities, acting in concert or participating with the Defendants who have actual or constructive notice of the Court's injunction from engaging in deceptive, misleading, and unfair practices or otherwise violating the Kentucky Consumer Protection Act as alleged herein.

B. That the Court expand the provisions of the injunctions as necessary by including such "fencing in" provisions as are reasonably necessary to ensure that the Defendants and other enjoined persons and entities do not return to the unlawful practices alleged herein, or commit comparable violations of law.

C. That the Court, pursuant to KRS 367.200, enter judgment against the Defendants to pay restitution to consumers for all money acquired by means of acts or practices that violate the Consumer Protection Act.

D. That the Court enter judgment against the Defendants for such additional funds as are necessary to ensure complete disgorgement of all ill-gotten gain traceable to the unlawful practices alleged herein.

E. That the Court, pursuant to KRS 367.990(2), enter judgment against the Defendants for civil penalties up to two thousand dollars (\$2,000.00) for each willful violation of the Consumer Protection Act.

F. That the Court award the State interest as permitted by law.

G. That the Court enter judgment against the Defendants for attorney fees, the Commonwealth's costs and court costs.

H. That the Court grant such additional relief to which the Plaintiff may be entitled.

Respectfully submitted,

JACK CONWAY
ATTORNEY GENERAL



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